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Individualisation and Growing Diversity of Employment Relationships

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Abstract
At a time when the economic recession is more severe, and trade unions are weaker, than at any time since the War, it would be unproductive to speculate about the extent to which these changes have been imposed, acquiesced, or agreed by the workers concerned. Instead we focus on recent changes in employment relationships in Britain, and their consequences, and then on the winners and losers, which provides a cue for considering the longer term desirability of some of these developments for social justice and cohesion.

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1. Introduction

One of the most striking features of the recession of 2009-2010 has been the apparent willingness of employees to accept changes in their terms and conditions of employment in order to retain their jobs. By early 2010, a number of observers had begun to ask whether this new adaptability of pay and working patterns to accommodate the drop in demand had contributed to the relatively small impact of the first wave of the recession on employment compared with previous major recessions (Gregg, 2011). In this paper, we examine current evidence behind this claim, albeit fragmentary, and argue that this new-found adaptability has its origins in a number of institutional changes that have been gathering momentum over the past two decades. We also consider the winners and losers.

Nickell (2011) and Gregg (2011) show that the initial impact of recession on employment had been much less severe than expected. The Office for National Statistics (ONS) has produced a detailed comparison with the early impact on employment of the current recession compared with previous deep recessions, and although it is too early to rule out a 'double-dip', there is reasonable *prima facie* evidence that labour market adjustment has changed (ONS, 2010). The other notable observation, which may be related, is that pay reductions absorbed a good deal of the recession's initial impact, with average weekly earnings for the whole economy crashing at an annualised rate of 5% in the early months of 2009 (Figure 1).

These aggregate statistics are reflected in the experience of many individual companies, according to reports in the press. In February 2009, Toyota attracted national attention by announcing a freeze of pay and bonuses shortly after BMW and Vauxhall announced stringent cut backs in their UK plants (Financial Times 19/02/2009). Honda followed with similar announcements of pay cuts in March (The Times 24/3/09), in July, the BBC reported that BT was seeking pay cuts in exchange for more holidays (BBC 04/07/2009), and in January 2010, the Guardian reported that some employers were using the recession to claw back paid leave arrangements (Guardian 07/01/2010).

Some of these adjustments may be accepted voluntarily. Some workers may prefer a temporary pay cut in order to keep their jobs for the longer term. It is possible that, after a decade of policies to foster employee commitment in many organisations, employees' attitudes have changed, and that they trust their employers that short-term pain will be rewarded by long-term gain. However, it may not be that simple: a recent CIPD survey shows that as few as one third of British employees trust their senior managers (CIPD 2010). It may be that weakened unions no longer offer their traditional opposition to pay cuts. There may also be a greater readiness by employers to cut benefits in a way they did not do so in the past. The degrading of superannuation schemes has, for example, been a feature of this period. At a time when the economic recession is more severe, and trade unions are weaker, than at any time since the War, it would be unproductive to speculate about the extent to which these changes have been imposed, acquiesced, or agreed by the workers concerned. Instead we focus on recent changes in employment relationships in Britain, and their consequences, and then on the winners and losers, which provides a cue for considering the longer term desirability of some of these developments for social justice and cohesion.

2. Recent Change in British Employment Relationships

The changes to be reviewed might be categorised broadly into those of substantive and of procedural individualisation (see Brown et al 1998). The first concerns the extent to which the actual content of employment contracts has become more diverse in terms for example of hours worked, pay received, job descriptions, and contractual status. The second concerns the extent to which the procedures whereby these contracts are determined has become less a matter of collective bargaining and more one in which the employer deals with the employee as an individual, frequently imposing the terms without negotiation.

A powerful driver of change in recent years has been structural change. Over the quarter century of trade union collapse since 1980, the proportion of all employees in manufacturing, the heartland of private sector collectivism, fell from 38 per cent to 15 per cent in 2004. The proportion employed in the heavily collective public sector fell from 36 per cent to 28 per cent. The proportion of the workforce employed in the thinly unionised private services sector rose from a quarter to over a half (Brown et al 2009: 17). The size of workplace in which people were employed, commonly associated with collectivism, fell in manufacturing, although it rose in private services.

The diversity of employment contracts has increased substantially. The proportion of the workforce who were primarily self-employed rose from 8 per cent in 1980 to 13 per cent in 2010. The increase in part-time employment was from 14 per cent to 27 per cent over the same period, closely linked to the rise in female employment. The proportion of workplaces where at least half the workers were part-timers rose from 13 per cent to 28 per cent of the total. The use of fixed-term contracts rose. The proportion of workplaces using fixed term contracts of less than a year rose from about one in five to one in three (Brown and Edwards, 2009: 17). There has also been a rise in employment through agencies. Both these trends have been particularly marked in the public sector. The proportion of workers on contracts without any defined working hours has risen, as has that of those on annualised hours. Overtime working, typically with a high degree of employee discretion, has diminished. Overall, the employment contract has, in summary, become more flexible, and with this flexibility more under the control of the employer.

It is not only that there is greater variability of contract, but also of pay within those contracts. During the 1980s there was a sharp rise in the practice of making some components of pay contingent on outcomes: linking pay to individual or work-group performance, or to company profits, or introducing employee share ownership schemes. And although enthusiasm for such schemes has waned somewhat more recently, for the economy as a whole the proportion of workplaces with some sort of contingent pay scheme rose from 41 per cent in 1984 to 55 per cent in 2004. For the private sector alone that increase was from 52 per cent to 67 per cent. The growth in profit-related pay was a particularly notable feature of the 1980s. It had been officially encouraged for a time by tax incentives, but continued after they were withdrawn. By 2004, profit-related pay covered 45 per cent of private sector workplaces, more than twice the 20 per cent it had stood at in 1984. In brief, a major reason for pay becoming more flexible in the present recession is simply that pay systems had been introduced which made it contractually more flexible and contingent upon individual and company performance. Another feature of recent years is one of increased diversity of contingent pay schemes within single workplaces; incentives are being shaped more specifically to the potential of particular jobs and technologies (Pendleton and Whitfield, 2009). No negotiation or managerial diktat would have been necessary to achieve many of the pay cuts of the past couple of years (Figure 1). They would have been simply an intended and expected consequence of the tougher product market.

3. The Collapse of Procedural Collectivism

The recent increase in the diversity and flexibility of employment contracts, and in the extent to which they are employer-designed, is both a consequence and a cause of the decline of organised labour. The scale of that collapse is hard to exaggerate. The proportion of the employed workforce in trade unions collapsed from around 55 per cent to around 30 per cent between 1980 and 1996, after which it drifted slowly down to 28 per cent in 2007. But the decline in the coverage of collective bargaining has been both more extreme and more remorseless. If we look just at the private sector, the proportion of workplaces where management engages in any collective bargaining fell from 47 per cent to 38 per cent between 1984 and 1990, the main period of anti-union legislation and public confrontations. But it fell further to 24 per cent in 1998, and it continued its fall at undiminished rate after New Labour was elected, to 16 per cent in 2004. Relatively little of this retreat can be attributed to structural change in the economy and to the contraction of traditionally highly unionised sectors. It has been clearly demonstrated that the overwhelming driver has been increased competition within individual product markets (Brown et al, 2009). Firm by firm and sector by sector, employers have responded to tougher competition by tightening controls over work, and either refusing to deal with trade unions at all or doing so only on the basis that their role is one of passive consultation or of positive contribution to improved productivity.

Trade unions have responded in kind. It is not just that strike levels tumbled by the end of the 1980s to lower levels than in recorded history and stayed there: the annual number of strikes recorded per million union members had averaged around 250 in the 1950s, 1960s and 1970s, halved in the 1980s, and fell to and remained at a tenth of it in the 2000s. The sectoral location of strikes also changed. Over the past decade the vast majority of working days lost in strikes are in the public sector; in the private sector strikes have become a rarity. Trade unions in the private sector have increasingly sought survival by co-operating with employers in their desire to enhance productivity and competitiveness. The officially encouraged 'workplace partnership' deals of the turn of the millennium were not a passing fad, although the terminology became electorally unattractive to union leaderships and fell from use. But *de facto* partnership deals are now the essence of private sector collective bargaining - and also a growing feature of the public sector.

So far we have drawn attention to the fact that competitive pressures have transformed the form and content of employment contracts in the private sector, emphasising that this has been a substantially greater change than in the public sector. But this is not to say that the public sector has been unchanged; very far from it. For one thing the privatisations of the past thirty years have removed to the private sector some of the most renowned strongholds of trade union power, such as steel, car assembly, aerospace, ship-building, docks, airports, and coal mining. The evidence suggests that, far from unions' preserving some of their traditional authority in these sectors, management withdrew from collective bargaining even more than in comparable sectors that had never been in state ownership (Brown, Bryson and Forth, 2009: 44). It is true that unions have retained a solid foothold in some privatised sectors – typically those characterised by 'natural monopolies' where there are official regulators: gas, water, electricity, communications and rail. But union influence over daily work organisation is none-the-less much diminished.

Indeed, union influence has also diminished substantially in sectors that have remained public. In health, education, and local and central government, quasi-market pressures such as league tables, out-sourcing, trusts, competitive tendering, and other resource competitions have greatly reduced union influence. In some sectors where union control was substantial it has taken a struggle. For the prisons it took the introduction of private prisons to trigger a sea-change. In the fire and emergency services and the postal service it has been the failure of national strike action. The public sector remains distinctive in its attachment to collective bargaining. But the past twenty years have seen, for both pay fixing and wider management, a radical shift away from centralised, standardised arrangements, and towards greater discretion for local management and lesser involvement for unions (Bach, Givens and Forth, 2009).

4. Consequences of Change

A reflection of the decline in union influence is the change in the way that employers communicate with workers. Some sort of arrangement for this has been in place for over 80 per cent of workplaces at least since the 1980s. But whereas at that time 66 per cent of those communication methods involved trade unions (and of that 24 per cent involved unions exclusively), by 2004, only 38 per cent involved trade unions (and a historically tiny 5 per cent trade unions exclusively). Management had come to dominate the communication process, through means such as consultative committees open to all employees, through problem solving groups, through employee opinion surveys and, notably, the use of team briefing, the use of which doubled from 36 per cent of workplaces in 1980 to 71 per cent in 2004. The representative role of unions, even where they are recognised by management, had been substantially reduced (Willman, Gomez and Bryson, 2009).

The implications of these developments for employment contracts have been massive. Much more is at the discretion of the employer alone: what employees are paid; what hours they work; when they work; whom they work with; what they do. Contracts, which in the 1980s might have had quite specific job descriptions carefully negotiated with trade unions, are now typically left vaguer, with letters of appointment describing the worker's duties giving renewed emphasis to catch-all clauses of the sort '… and any other duties for which your manager considers you to be competent'. Between 1984 and 2004, the proportion of British private sector employees (in workplaces with 25 or more) whose pay was determined by management acting alone rose from 59 per cent to 85 per cent. For many of these workers, this would not in practice have meant 'individual negotiation' of any substance, or even 'take it or leave it', but 'take it or leave'.

Quite apart from institutional change, the extraordinary growth over this period of electronic surveillance capability – whether email records, CCTV, 'satnav' location techniques, electronic payment recording, or mobile phones – has immeasurably increased employers' ability to monitor their employee's conduct of work. For a wide swathe of jobs, technology has transformed the employer's knowledge of and control over the worker's execution of the employment contract. It is not that employers have the capacity routinely to analyse this unimaginable volume of data; what matters is that they have potential access to individual evidence to enforce contractual compliance through disciplinary procedures. That said, a potential casualty of undue monitoring of employees is the basis of trust between employer and employee upon which much work pride and quality depends.

The shift in power towards employers has been reflected in some aspects of the experience of the workers. While pay has generally improved steadily in real terms over the past thirty years, it has also become more unequal, with consequent increases in dissatisfaction provoked by increased relative deprivation for many (Machin, 2011). Job security, measured in terms of involuntary job separations has generally increased, and despite a long period of deregulation, job tenures have proved relatively stable in the UK as in other major advanced economies (OECD, 1997 Ch. 5)[1]. But some aspects of work have, overall, become less attractive to the employee. Workplace autonomy has tended to decrease (Gallie *et al*, 2004; Green and Whitfield, 2009). The perception that stress and work intensity are increasing, which was marked in the 1990s, has continued (Green, 2006; Green, 2008).

[1] For an annual update see OECD Stat Extracts at http://stats.oecd.org/Index.aspx.

What about the growth of individual employment rights, it might be argued. Has not the several score of employee protections and entitlements that have been introduced in the past thirty years, around half as a result of EU influence, compensated for the decline in trade union influence and introduced new inflexibilities from the employer's point of view? The answer is that, while these have indeed provided some compensation in terms of employee entitlements, there has been no substitution for the decline of trade union influence over the conduct of work. Rights against sexual, racial and disability discrimination, against bullying and mispayment of wages, rights for maternity leave, family friendly policies, unfair dismissal entitlements, information and consultation rights, and so on, all increase the cost of employment. This has been manifest in the sharp growth in specialist human resource management: present in two-thirds of workplaces in 2004 compared with one half in 1980 (Guest and Bryson, 2009: 125). Overall these rights have probably favoured employers with greater initial command of their workforces; the National Minimum Wage, for example, has probably shifted employment and market share away from employers who relied upon low pay to compete towards employers who rely more on competent employee management (Metcalf, 2008). But, for all but the more authoritarian and unscrupulous employers, these new employment rights do not compromise the power to manage.

There is a sharp contrast with the collective bargaining practices of the past. We shall come in a moment to what trade unions achieved for their members in terms of wages and substantive conditions. But their achievements in terms of modifying the employer's power to manage were considerable. British collective bargaining has always been distinctive by comparison with other European countries or, for example, the United States, Canada, or Japan, in the extent to which it offered union members influence over the immediate conduct of work (Fox 1985). By the 1970s, in both public and private sectors, more or less tacit negotiations at the workplace over manning levels, work rates, overtime, bonus payments, and even work methods, were commonplace. Conducted with employee representatives commonly called 'shop stewards', and backed by an awareness of the capacity for very local workplace collective action, these exercised substantial constraint over management. It is this distinctive characteristic of local control over the conduct of work which has diminished dramatically. For example, in 1980, of a representative sample of works managers responsible for manufacturing plants with 100 or more employees where trade unions were recognised, 40 per cent said they would normally negotiate with union representatives over the reallocation of work. In 1998 the comparable proportion reporting this was 4 per cent (Brown and Nash, 2008). Similar but more specific examples could be given across a wide range of sectors. It is not that local union influence over the conduct of work has diminished sharply everywhere – there are odd groups such as long-haul passenger aircraft pilots and theatrical stage-hands where it is still notable – but it has become very much the exception rather than the norm. Changes in employment laws have done nothing to sustain it.

The shift in the character of trade unions, of collective bargaining, and of the control of work is clearly reflected in evidence of the economic consequences. It is reflected in wages. The 'mark-up' or apparent wage premium enjoyed by union members over non-members had been around 10 per cent in the 1970s up to the early 1980s, falling to (according to Labour Force Survey data) 6 per cent for 1993-9, and further to 3 per cent for 2000-6. It was, interestingly, more resilient in small workplaces of under 25 employees (where unionisation is relatively rare), standing at around 8 per cent in 2004 (Blanchflower and Bryson, 2009: 61 - 63). It was not only with wages that union influence diminished. In the early 1980s the evidence suggested that the presence of unions in an establishment was associated with relatively low employment growth there, possibly indicating an effect in discouraging investment. Whatever the reason, this disappears after 1990 (*op. cit.*: 65). And there is a similar pattern with regard to the financial performance. 'Unions were associated with poorer financial performance in the early 1980s. But this difference has since disappeared, and it has been due to an improvement in the relative position of unionised workplaces rather than any deterioration among non-unionised workplaces' (*op. cit.*, 2009: 68). More subjectively, managers' perceptions of the rather fuzzy notion of 'industrial relations climate' followed a similar track, with unions being seen as detrimental in the 1980s, but with such an effect disappearing from the later 1990s (*op. cit.*: 71).

In summary, Britain entered the recession of 2009 with employment relationships that were remarkably altered by comparison with those prevailing in the recession of 1991, and even more with those of the recession of 1980. Contracts of employment had become more diverse in form, more contingent upon economic circumstances, more individualistic procedurally, and above all, far more under the control of employers. Little wonder that in 2009 they permitted a more flexible response to the demands of product markets than at any time since the Depression of the 1930s. And because the driving force behind their change has been toughening product market competition, which has, more than anything else, undermined collective bargaining and the influence of trade unions, there is every reason to believe that this change has been irreversible.

5. Winners and Losers of the Change

The gap left by the erosion of the old system of joint regulation of the workplace and more generally of labour markets by collective actors is gradually being filled. In its place is a different system of regulation which gives primacy to the needs of individual organisations and their employees, and in that respect is more 'market-oriented'. It is also less egalitarian, and many of the developments described above have disproportionately affected the workers who had gained most from joint regulation. Whether it is any more sustainable in the long-run than the system it had displaced can be debated. Below, we set out some of the key elements, which also give lie to some of the winners and losers of these changes.

First, the flexibility of nominal wages shown in Figure 1, if sustained into the future, stands in stark contrast to views of practitioners and labour economists of earlier generations. Keynes and Hicks both noted the received wisdom that the structure of relative wages in Britain's unionised economy was a major obstacle to the downward flexibility of money wages. It was for this reason that Hicks (1955) argued that modern economies had moved from the gold standard to the 'labour standard' in which currency fluctuations had to bring about the adjustments in real wages that the labour market could no longer provide. Although it is too early to say definitively, it is hard to avoid drawing a connection between the fall in money wages in early 2009 and the apparent robustness of employment levels at the onset of the recession. Although financial and business services showed the biggest drops, they also occurred on a smaller scale in manufacturing and other services. The link with variable pay also seems highly plausible: the pay practice has been steadily spreading over the past two decades; and comparison of pay trends with and without bonuses shows clearly that bonuses provided nearly all the pay flexibility displayed in Figure 1.

Before hailing this as the dawn of a benign new era, one should consider other evidence on the incidence of bonuses. One reason why workers have often opposed variable pay is that they have no cushion of savings and discretionary income to absorb drops in pay. A steady rate of pay, supplemented with overtime, made it possible to plan family budgets. Worker preferences such as these, influence the kind of pay system employers will offer when they compete to attract labour. Low income workers prefer the certainty of stable rates of pay. In contrast, high income workers, who can afford the associated risk, may well prefer variable pay, especially if they believe it will reward the success of their own efforts and that of their organisation. In fact, this is borne out in recent British earnings statistics. There is a strong correlation between the *level* of annual pay and the *percentage* annual bonus. This can be seen in median pay and bonus percent for detailed occupations shown in the ONS 2008 and 2009 annual surveys of earnings and hours (ASHE).[2] In other words, the much sought after flexibility of money wages in order to give greater job security can be found in today's labour market, but mainly for higher paid occupations.

Another notable feature of the emerging pattern of regulation is a change in the nature of employee voice. Again, we suggest this gives greater market flexibility, but also that it benefits mainly the better qualified and better paid. As collective union voice has declined in Britain since the early 1980s, so a new configuration of voice channels has developed. Occupational licensing and its related interest associations, as argued in Humphris, Kleiner and Koumenta (2011), have expanded in the US while trade unionism has declined. Their data suggest that British labour markets are experiencing a comparable change. Although the jury is still out on the net public benefits of licensing, there are notable parallels with old-style craft unionism which controlled entry in order to regulate pay and working conditions. Licensing establishes common standards of training and performance, and in doing so it helps to create more flexible labour markets with a large pool of skills for employers, and it ensures that workers' qualifications have wide currency across the labour market. In contrast, much employer-provided training is not transferable, so that when people lose their jobs they often have to step down the skill hierarchy. However, as Humphris and her co-authors point out, licensing benefits primarily higher paid workers.

In their classic defence of the benefits of trade unions to the economy, Freeman and Medoff (1984) emphasise how employers can gain if their employees will share information with them about their jobs and the general functioning of the company. It helps to balance the one-sidedness of much information that filters up the managerial hierarchy, and so can boost productivity. Willman et al. (2009) show that employers' demand for voice has not diminished, but to use Freeman and Medoff's metaphor, it has emphasised only one of the 'two faces of unionism': assisting the flow of information in the workplace, but not bargaining over pay. Thus we have seen an expansion of employer-led voice, such as consultation, quality circles, and workplace briefings, but these are all management-led, and their agenda is usually set by management. Part of the price of union-led voice is that the organisational imperatives of collective bargaining, which include building coalitions among disparate groups of workers, inevitably involve trade-offs in which the strong demonstrate solidarity with the weak. Metcalf et al (2001) show that typically, in Britain, unions have reduced pay inequalities among the groups they represent. Detaching 'productivity' voice from 'bargaining' voice should in principle enable employers to raise productivity, and they may then use this to reward the workers whose skills and continued loyalty matter most. In addition, as electronic personal communications become ever more potent as means of mobilising worker discontents, there are dangers for both employers and the wider society in the contraction of the representative infrastructures of unions which might permit elected representatives to manage those discontents.

Although trends in *individual* employee voice are not available for the quarter century of union decline, the most recent WERS (2004) indicates that it is strongly associated with the effectiveness of their outside option. Thus, individual voice is greatest for employees with high levels of education, in skilled and professional occupations, who have been recently mobile, and who are highly paid in their occupation: factors that indicate a strong external

[2] The correlations were 0.80 and 0.63 respectively for 2008 and 2009 for four-digit occupations, both significant at <1%. The 2009 figure may be lower because of the sharp fall in bonuses in February-March that year. The ASHE data relate to April.

labour market. Such workers were more likely to express confidence in the power of their individual voice in the workplace (Marsden 2010b). The same data suggest that effective individual voice is inversely related to collective union voice, whether in the form of workplace collective agreements, or workplace representatives, and is negatively related to measures of management-led voice, except for appraisal being linked to pay. Whether workers can literally choose between individual and collective voice is not clear. However, if they have limited time and effort to devote to voice activities, and union coverage has become patchy, it seems entirely logical that they should hone their individual voice skills and ensure they maintain a strong outside option. As noted in the CIPD survey cited earlier, most British workers do not trust their managers. Once again, in this new more market driven environment, the advantage lies with those employees who have the most marketable skills.

A final institutional change that may lie behind greater pay flexibility has been the decline of strongly institutionalised entry routes to a number of occupations. This change may liberalise access, but it too has come with a price tag of increased inequality. Although these channels may have restricted increases in labour supply, one important advantage was that competition for entry took place over a relatively short time period. Those who did not get a training position with a top local employer were still young enough to try another company or a different occupation, and to start earning their living. Today, in a number of occupations such channels have declined and have been replaced by a prolonged period of competition in unstructured labour markets. Aspirant entrants to these occupations have to build up their personal networks, negotiate deals, take on low paid work or even unpaid internships to get known, and achieve the break that will bring them peer recognition and status as full members of the occupation (Marsden 2010a). Such prolonged entry tournaments open up supply, but also require financial support from families. As the Sutton Trust (2006) observed in the case of journalists, loss of the traditional entry routes meant that aspirants were dependent on family wealth, and so the occupation had become more elitist in recent years. Another feature of the extended competition for entry is that a number of workers become trapped in the fringes of these occupations having failed to gain entry to the prestigious core, but also having left it too late to train for a different occupation. Such people continue to depress the pay and conditions of those competing for entry. Thus once again, a move to more flexible and less institutionally regulated labour markets may be good for adjustment to shifts in demand, but they can also be socially regressive.

In conclusion, the decline of organised union voice in Britain and of collective regulated employment practices may well have enabled pay and work practices to absorb some of the shock of the first wave of the recession, and so to protect employment levels, at least initially. As unemployment has such a scarring effect (as noted in other authors' work referred to in this paper), this must be a significant gain. However, it has to be set against the price in terms of inequality. As Vignoles (2011) shows, inequality also scars as young people from deprived homes fare much worse in the educational system than their peers from better off homes. This is not an easy trade-off to decide, and without collective voice many of those most affected probably have little or no voice in this decision. The trade-off is not just one for national politicians, but also for employing organisations. The CIPD's concern that so few British workers trust their employers was justified because many of the modern methods of human resource management depend upon winning employee motivation so that managers can rely on them to make good decisions that benefit their organisations. This requires a reasonable degree of trust on both sides. If workers feel that their managers' willingness to listen to them depends upon their marketability, then the price that organisations pay will be more limited cooperation and commitment. Traditional forms of union-based collective voice may often have been adversarial, but they were not always so, and it is perhaps a mistake to let the experience of the 1970s and early 1980s colour one’s judgement for all time. These were years of intense social conflict as inflation undermined social cohesion.

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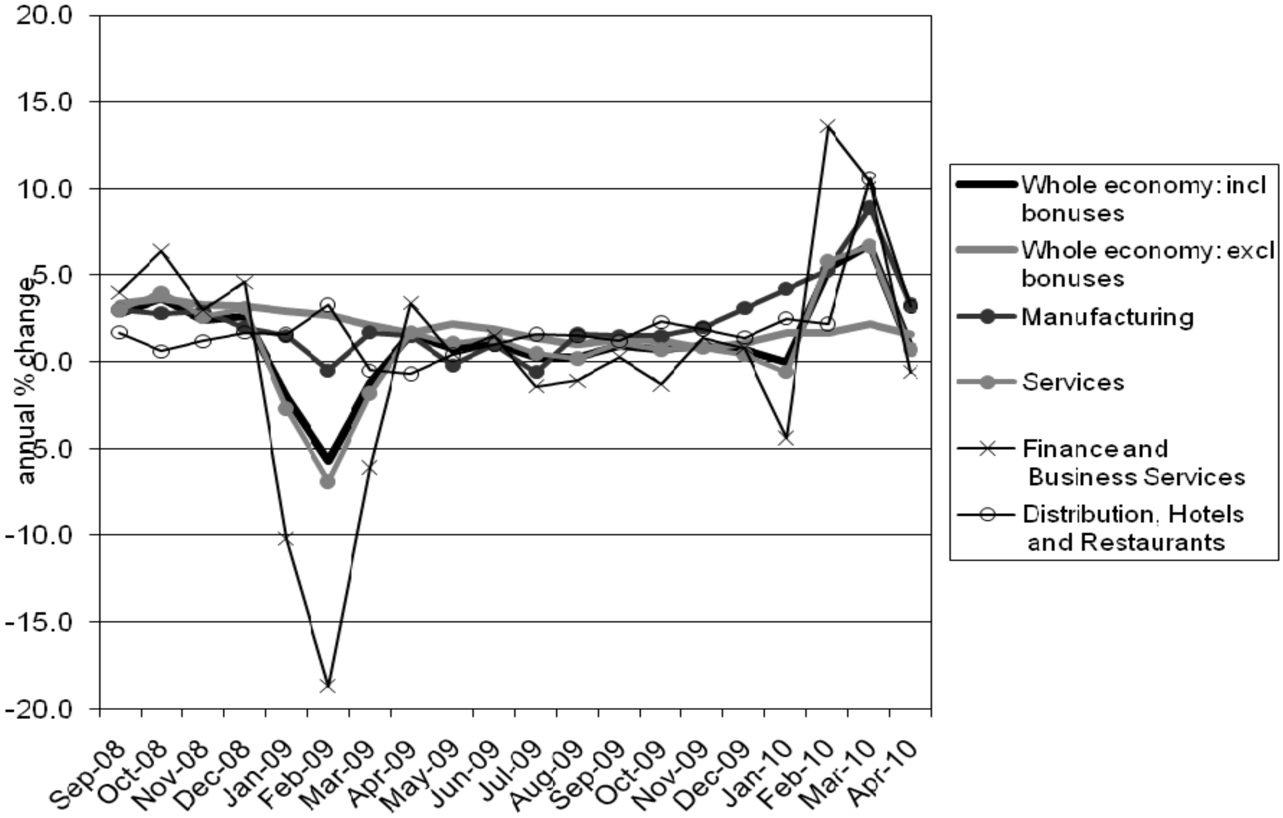
7. Figures

Figure 1: Weekly earnings growth by sector (annual rate %): effect of bonuses



Source: ONS online: AWE Supplementary Tables.

Note: Average weekly earnings include bonuses unless stated otherwise.

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